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An unending variety of topics

Monday, January 09, 2006

Cowen on currency

Tyler Cowen observes that those who have influence over the value of their local currency (usually government leaders and central bankers) and who hold most of their assets in a foreign currency have a strong incentive to take actions that depreciate the local government currency that they control. On the other hand, I'd add, if those trusted with the value of a currency hold unhedged long-term debt denominated in a that currency, this provides a good insurance policy for other holders of that currency. (Although going too far in this direction incentivizes deflation). I suggest that government leaders, central bank directors, and the like be publicly audited with this in mind, similar to the laws that require disclosure by company insiders when they buy, sell, or hedge their company's stock.

Posted by Nick Szabo at 11:03 AM

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Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

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